



Missouri Transportation
Finance Corporation

*A component unit of the
State of Missouri*



Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2010



Comprehensive Annual Financial Report

for the fiscal year ended
June 30, 2010

Roberta Broeker, CPA, Executive Director
and Brenda Morris, CPA, Treasurer

Prepared by the Controller's Division
Missouri Department of Transportation

Missouri Transportation Finance Corporation
P.O. Box 270
Jefferson City, MO 65102
(573) 526-8106



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Finance Corporation**

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Introductory Section

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August 18, 2010

Board of Directors
Missouri Transportation Finance Corporation
Jefferson City, Missouri

The Missouri Transportation Finance Corporation (MTFC) is pleased to submit the Comprehensive Annual Financial Report (CAFR) of the MTFC for the fiscal year ended June 30, 2010.

The Transportation Equity Act of the Twenty-first Century (TEA-21) Cooperative Agreement between the Federal Highway Administration, the Federal Transit Administration and the Federal Railroad Administration, agencies of the United States Department of Transportation, the Missouri Highways and Transportation Commission (MHTC), and the MTFC requires the MTFC to have an annual independent financial and compliance audit. In fulfillment of this requirement, the MTFC prepared this CAFR, and contracted with the independent auditing firm of Williams-Keepers LLC to audit the financial statements.

Generally accepted accounting principles (GAAP) require management to provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MTFC's MD&A can be found immediately following the report of the independent auditors, beginning on page 19.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the MTFC. To the best of our knowledge and belief, this financial report is complete and reliable in all material respects and is reported in a manner designed to present fairly the MTFC's net assets and changes in net assets. All disclosures necessary to enable the reader to gain an understanding of the MTFC's financial activities have been included.

Profile of the MTFC

The MTFC, incorporated in August 1996 as a not-for-profit corporation, derived its authority to form and operate from the TEA-21. The Cooperative Agreement provided the original capitalization for the entity, a mixture of federal and state funds, to administer a program focused on funding Missouri highway and transportation projects by offering financing options such as low interest direct loans to private and public entities. An eight member Board of Directors administers the MTFC and is responsible for the direction of the entity, including approval of all loans.

Internal Controls

The MTFC is responsible for establishing and maintaining internal controls designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition. Those controls also assure the reliability of financial records for preparing financial statements and maintaining the accountability for assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived from that control. The evaluation of costs and benefits requires estimates and judgments by the MTFC Board. All internal control evaluations occur within this framework. The MTFC believes the corporation's internal controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Economic Outlook

The current state of transportation funding is uncertain. Safe Accountable Flexible Efficient Transportation Equity Act – A Legacy for Users (SAFETEA-LU) expired September 30, 2009, and has been extended five times through reauthorizations. The first four reauthorizations, however, were at a \$30.0 billion level, rather than the \$43.0 billion level prior to the expiration of the highway act. In March 2010, Congress passed the Hiring Incentives to Restore Employment (HIRE) Act, which is the fifth reauthorization. This legislation provided \$19.5 million to the Highway Trust Fund, restored the federal highway program's contract authority to \$42.0 billion, and extended the surface transportation authorization until December 31, 2010. Even now, nationally, agreement does not exist as to the composition of the next highway authorization act.

While some signs of recovery have been noted, the national economy has not returned to pre-recession levels. State revenues designated for transportation (motor fuel taxes, motor vehicle sales and use taxes, and motor vehicle driver's licensing fees), however, increased 1.3 percent (\$12.7 million in fiscal year 2010 from fiscal year 2009). Despite the uncertainty of federal transportation funding, the need for transportation projects still exists. Using financing tools such as MTFC loans allow entities a means of accomplishing transportation projects today and avoiding future inflation costs.

Future of MTFC

Interest in the MTFC loans declined slightly in the last year. The economy has caused many public and private entities to become more conservative about incurring new debt, delaying transportation projects until more certainty exists. The MTFC funds available to loan are sufficient to meet the current level of demand. The MTFC's net assets have increased over the last three years primarily as a result of income derived from interest earned on loans and investments. The growth in net assets is expected to stay steady while the loans receivable balance is high and interest rates on investments are low. The MTFC continues to explore other financing options. At the May 2010 MTFC board meeting, the board approved a loan guarantee pilot program.

Initiatives

The Missouri Department of Transportation's Resource Management staff is responsible for marketing MTFC loans as a transportation project funding option. They accomplish this activity by:

- Maintaining information about the MTFC on the Partnership Development Website,
- Educating partners,
- Preparing newsletters to communicate activity to potential customers.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the MTFC for its comprehensive annual financial report for the fiscal year ended June 30, 2009. This was the second consecutive year the MTFC has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

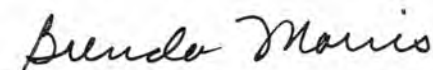
Acknowledgements

The timely preparation of this report was achieved by the dedicated service of the Missouri Department of Transportation's Resource Management and Controller's Division staff who are responsible for MTFC administrative activities. We would like to express appreciation to members of the staff who assisted and contributed to this report.

Sincerely,



Roberta Broeker, CPA
Executive Director



Brenda Morris, CPA
Treasurer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Missouri Transportation Finance Corporation

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

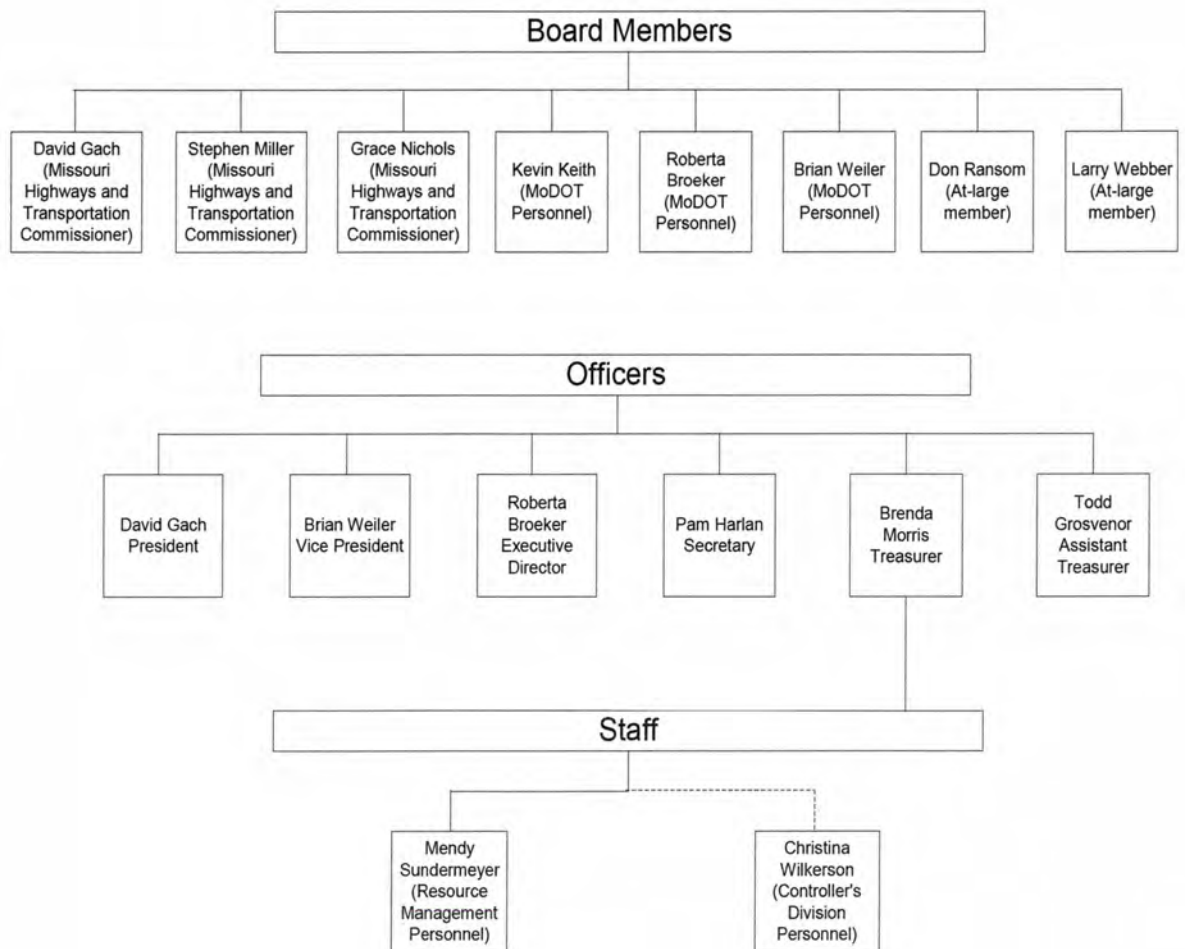


President

Executive Director

Organizational Chart

June 30, 2010





A Component Unit of the State of Missouri

Principal Officials

Fiscal Year 2010

<u>MTFC Title</u>	<u>Name</u>	<u>MoDOT Title</u>
President	David Gach	MHTC Commissioner
Vice President	Brian Weiler	Multimodal Director
Executive Director	Roberta Broeker	Chief Financial Officer
Secretary	Pam Harlan	Secretary to the MHTC Commission
Treasurer	Brenda Morris	Resource Management Director
Assistant Treasurer	Todd Grosvenor	Financial Resource Administrator

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Financial Section

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Missouri Transportation Finance Corporation
Jefferson City, Missouri

We have audited the accompanying financial statements of the business-type activities of the Missouri Transportation Finance Corporation (the Corporation), a component unit of the State of Missouri, as of and for the years ended June 30, 2010 and 2009, which collectively comprise the Corporation's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the business-type activities of the Corporation as of June 30, 2010 and 2009, and the changes in net assets and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2010, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 19 through 22 are not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Corporation's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

We did not audit the information included in the introductory and statistical sections of this report and, therefore, express no opinion thereon.

Williams-Keepers LLC

August 17, 2010

Management's Discussion and Analysis

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Management's Discussion and Analysis

The following section of our annual financial report presents our discussion and analysis of the MTFC's financial performance during the year. It is intended to provide an objective and easily readable analysis of the MTFC's financial activities based on currently known facts, decisions and conditions. We encourage readers to consider the information presented here in conjunction with the information presented in the financial statements and notes, which follow this section.

FINANCIAL HIGHLIGHTS

- During fiscal year 2010, the MTFC approved six loans totaling \$15.7 million. Three of these loans were disbursed in fiscal year 2010 with one remaining loan scheduled for disbursement in fiscal year 2012. The other two entities determined they did not need the loans. The fiscal year 2010 approved loan amount is less than fiscal year 2009 when eleven loans totaling \$23.7 million were approved. In fiscal year 2008, three loans totaling \$10.3 million were approved.
- Disbursements totaling \$59.4 million for ten loans were made in fiscal year 2010. In fiscal year 2009, eleven loans totaling \$18.8 million were disbursed and in fiscal year 2008, four loans totaling \$8.1 million were disbursed.
- In fiscal year 2010, three entities with approved loans totaling \$3.6 million determined they did not need the loans, including two loans approved in 2010. One entity determined they needed \$1.7 million less than their originally approved amount. In fiscal years 2009 and 2008, five entities with approved loans totaling \$13.2 million and two entities with approved loans totaling \$4.5 million, respectively, determined they did not need the loans. In fiscal year 2009, three entities determined they needed \$4.9 million less than their originally approved amount. In fiscal year 2008, no entity requested a lesser amount.
- The MTFC's net loans receivable increased \$46.6 million from fiscal year 2009 to 2010 and \$10.4 million from fiscal year 2008 to 2009 as loan disbursements exceeded loan repayments.
- Operating income increased \$1.2 million from fiscal year 2009 to 2010 primarily as a result of an increase in interest income on outstanding loans. From fiscal year 2008 to 2009, a decrease in interest income on outstanding loans resulted in a decrease of \$196,000 in operating income.
- Net non-operating revenues decreased \$1.6 million, 82.1 percent, from fiscal year 2009 to 2010 and \$499,000, 20.8 percent, from fiscal year 2008 to 2009. The decrease in both fiscal years was primarily due to the reduction in the interest earned on investments and less funds to invest.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the MTFC's basic financial statements, which are comprised of two components: 1) financial statements and 2) notes to the financial statements.

Financial Statements report information about the MTFC through accounting methods used by private-sector companies, the economic resources measurement focus and accrual basis of accounting. These statements provide short- and long-term information about the financial status of the MTFC.

The *Statements of Net Assets* include all MTFC assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the MTFC is improving or deteriorating.

The *Statements of Revenues, Expenses and Changes in Net Assets* account for all revenues and expenses of the MTFC as soon as the event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The *Statements of Cash Flows* provide readers the sources and uses of cash, and the changes in the cash balance during the year.

Notes to the Financial Statements provide additional information and discuss particular accounts in more detail. The Notes are essential to a full understanding of the data provided in the financial statements.

FINANCIAL ANALYSIS

MTFC Net Assets
June 30, 2010, 2009, and 2008
(dollars in thousands)

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets			
Cash and investments	\$10,928	\$10,223	\$ 9,503
Restricted cash and investments	4,028	49,435	57,975
Interest receivable on loans and investments	1,453	1,004	896
Loans receivable, net	<u>74,889</u>	<u>28,276</u>	<u>17,835</u>
Total assets	91,298	88,938	86,209
Liabilities			
Due to Missouri Department of Transportation	1	4	4
Net Assets			
Restricted for lending purposes	78,998	78,278	76,311
Unrestricted net assets	<u>12,299</u>	<u>10,656</u>	<u>9,894</u>
Total net assets	<u>\$91,297</u>	<u>\$88,934</u>	<u>\$86,205</u>

Assets

Restricted cash and investments decreased the past two fiscal years. A decrease of \$45.4 million occurred between fiscal year 2010 and 2009 and a decrease of \$8.6 million occurred between fiscal year 2009 and 2008. These decreases were a result of loan disbursements exceeding loan repayments. In fiscal year 2010 and 2009, net loans receivable increased \$46.6 million and \$10.4 million, respectively. Loan disbursements in fiscal year 2010 of \$59.4 million exceeded loan repayments of \$12.8 million. In fiscal year 2009, loan disbursements of \$18.8 million exceeded loan repayments of \$8.4 million.

Net Assets

Net assets increased \$2.4 million in fiscal year 2010. This increase comes from \$2.1 million in loan interest and \$340,000 in investment earnings. In fiscal year 2009, net assets increased \$2.7 million for similar reasons.

MTFC Changes in Net Assets
Years ended June 30, 2010, 2009, and 2008
(dollars in thousands)

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating Revenues			
Interest income on loans	\$ 2,056	\$ 844	\$ 1,064
Other income	<u>29</u>	<u>43</u>	<u>6</u>
Total operating revenues	<u>2,085</u>	<u>887</u>	<u>1,070</u>
Operating Expenses			
Administrative fees	49	48	33
Other operating expenses	<u>13</u>	<u>13</u>	<u>15</u>
Total operating expenses	<u>62</u>	<u>61</u>	<u>48</u>
Nonoperating Revenues (Expenses)			
Investment earnings	375	1,967	2,459
Nonoperating expenses	<u>(35)</u>	<u>(64)</u>	<u>(57)</u>
Total nonoperating revenues (expenses)	<u>340</u>	<u>1,903</u>	<u>2,402</u>
Change in net assets	2,363	2,729	3,424
Net assets at beginning of year	<u>88,934</u>	<u>86,205</u>	<u>82,781</u>
Net assets at end of year	<u>\$91,297</u>	<u>\$88,934</u>	<u>\$86,205</u>

Revenues

In fiscal year 2010, the primary source of income was interest earned on loans, while in fiscal year 2009 and 2008 the primary source was earnings on investments. In fiscal year 2010, interest income on loans recognized as operating revenue increased \$1.3 million from fiscal year 2009, while in fiscal year 2009 it decreased \$220,000 from fiscal year 2008. The average loans receivable balance was \$53.0 million in fiscal year 2010 compared to \$20.2 million in fiscal year 2009 and \$27.1 million in fiscal year 2008. The increase in interest income in fiscal year 2010 is the result of the increase in the average loans receivable balance, and the decrease in interest income in fiscal year 2009 is the result of the decrease in the average loans receivable balance. Non-operating revenue is recognized on investments that are available for funding purposes. Program fees in fiscal year 2010, included in other income, decreased \$14,000 from fiscal year 2009. This decrease was a result of the MTFC accepting three fewer loan applications totaling \$9.6 million less in loan requests than the previous fiscal year. Fiscal year 2009 increased \$37,000 from fiscal year 2008 as the MTFC adopted a new application fee structure in May 2008.

Expenses

In fiscal year 2010, operating expenses totaled \$62,000, an increase of \$1,000 from fiscal year 2009. In fiscal year 2009, operating expenses increased \$13,000 from fiscal year 2008. In fiscal year 2009, administrative fees increased \$15,000 due to cost of living increases and additional hours charged by staff to the MTFC.

ECONOMIC AND OTHER FACTORS

The MTFC is an option for financing transportation projects. The Corporation expects loan demand to remain fairly constant. To satisfy the demand, the MTFC continues to explore ways to leverage its future cash flows to provide other financing options to entities, such as loan guarantees. The MTFC will manage cash flows to administer the loan commitments and, to the extent funds are available, any additional loan requests in future fiscal years.

CONTACTING THE MTFC

This financial report is designed to provide the Missouri Transportation Finance Corporation's interested parties, including citizens, taxpayers, customers, potential investors and creditors, with a general overview of the MTFC's finances and to demonstrate the MTFC's accountability for the money it receives. Questions about this report or requests for additional financial information should be addressed to Missouri Transportation Finance Corporation, P.O. Box 270, Jefferson City, Missouri 65102.

Financial Statements

Statements of Net Assets

June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 5,948,958	\$10,222,698
Investments	4,979,422	---
Interest receivable - loans	1,372,255	437,347
Restricted assets:		
Cash and cash equivalents	1,473,613	5,138,011
Investments	408,094	23,184,466
Interest receivable - investments	80,626	566,445
Loans receivable, net	<u>10,635,592</u>	<u>4,597,465</u>
Total restricted assets	<u>12,597,925</u>	<u>33,486,387</u>
Total current assets	<u>24,898,560</u>	<u>44,146,432</u>
Noncurrent restricted assets		
Investments	2,146,620	21,113,324
Loans receivable, net	<u>64,252,995</u>	<u>23,678,031</u>
Total noncurrent restricted assets	<u>66,399,615</u>	<u>44,791,355</u>
Total Assets	<u>91,298,175</u>	<u>88,937,787</u>
Liabilities		
Accounts payable	<u>1,112</u>	<u>4,290</u>
Net Assets		
Restricted for lending purposes	78,997,540	78,277,742
Unrestricted net assets	<u>12,299,523</u>	<u>10,655,755</u>
Total Net Assets	<u>\$91,297,063</u>	<u>\$88,933,497</u>

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating Revenues		
Interest income on loans	\$ 2,055,973	\$ 843,999
Program fees	<u>28,825</u>	<u>42,656</u>
Total Operating Revenues	<u>2,084,798</u>	<u>886,655</u>
Operating Expenses		
Administrative fees	49,283	47,558
Professional fees	10,600	10,200
Other	<u>2,266</u>	<u>2,931</u>
Total Operating Expenses	<u>62,149</u>	<u>60,689</u>
Operating Income	<u>2,022,649</u>	<u>825,966</u>
Nonoperating Revenue (Expenses)		
Investment earnings	375,521	1,966,286
Investment fees	<u>(34,604)</u>	<u>(63,725)</u>
Net Nonoperating Revenues	<u>340,917</u>	<u>1,902,561</u>
Change in net assets	2,363,566	2,728,527
Net Assets, beginning of year	<u>88,933,497</u>	<u>86,204,970</u>
Net Assets, end of year	<u>\$91,297,063</u>	<u>\$88,933,497</u>

Statements of Cash Flows

Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash Flows From Operating Activities		
Interest received on loans	\$ 1,121,065	\$ 801,651
Fees received for services	28,825	42,656
Loan disbursements	(59,405,044)	(18,839,696)
Principal received	12,791,953	8,399,388
Payments for administrative services	(52,461)	(47,551)
Other payments	(12,866)	(13,131)
Net cash provided by (used in) operating activities	<u>(45,528,528)</u>	<u>(9,656,683)</u>
Cash Flows From Investing Activities		
Interest received	1,603,329	2,140,955
Sale of investments	93,682,993	192,836,514
Purchase of investments	(57,661,328)	(173,636,187)
Investment fees	(34,604)	(63,725)
Net cash provided by (used in) investing activities	<u>37,590,390</u>	<u>21,277,557</u>
Net increase (decrease) in cash and cash equivalents	<u>(7,938,138)</u>	<u>11,620,874</u>
Cash and Cash Equivalents, Beginning of Year	<u>15,360,709</u>	<u>3,739,835</u>
Cash and Cash Equivalents, End of Year	<u>\$ 7,422,571</u>	<u>\$ 15,360,709</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 2,022,649	\$ 825,966
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Interest receivable - loans	(934,908)	(42,348)
Loans receivable, net	(46,613,091)	(10,440,308)
Accounts payable	(3,178)	7
Net Cash Provided by (used in) Operating Activities	<u>\$(45,528,528)</u>	<u>\$ (9,656,683)</u>
Reconciliation of Cash and Cash Equivalents to the Statements of Net Assets		
Cash and cash equivalents	\$ 5,948,958	\$ 10,222,698
Restricted cash and cash equivalents	1,473,613	5,138,011
Total Cash and Cash Equivalents	<u>\$ 7,422,571</u>	<u>\$ 15,360,709</u>
Noncash Items Impacting Recorded Assets		
Increase (decrease) in fair value of investments	<u>\$ (741,989)</u>	<u>\$ (239,719)</u>

Notes to the Financial Statements

Notes to the Financial Statements

Note 1: Summary of Significant Accounting Policies

The Missouri Transportation Finance Corporation (MTFC) was created by the Missouri Highways and Transportation Commission (the Commission), under Missouri General Not-for-Profit Corporation Law, Chapter 355 of the Revised Statutes of Missouri (RSMo), on August 23, 1996. The entity administers a program, in conformity with federal transportation laws, to provide financing and other assistance to public and private entities for highway and transportation projects in the State of Missouri.

(A) *Reporting Entity*

The MTFC is a component unit of the State of Missouri. The Commission has authority to remove any board member for cause, and therefore, may impose its will on the MTFC. The accompanying basic financial statements include only those operations related to the MTFC.

(B) *Basis of Accounting*

The MTFC accounts for its activities as a special-purpose government engaged in business-type activities. The accrual basis of accounting is utilized under which revenues are recognized when earned and expenses are recorded when liabilities are incurred. In applying the accrual concept to federal grant revenues and contributions, the legal and contractual requirements of the individual programs are used for guidance.

In reporting its financial activity, the MTFC applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations; Accounting Principles Board Opinions; and Accounting Research Bulletins of the Committee on Accounting Procedure.

(C) *Cash, Cash Equivalents and Investments*

Cash and cash equivalents include cash and repurchase agreements. Investments are reported at fair value. Restricted cash, cash equivalents and investments are set aside for lending purposes.

(D) *Loans Receivable*

Program loans are made and collected to fulfill the MTFC's responsibility to provide financing and other assistance to public and private entities for highway and transportation projects in the State of Missouri. Management has determined, based on prior experience and collateral pledged on the loans, that an allowance for uncollectible loans is not necessary. Loans receivable are restricted for lending purposes.

(E) *Net Assets*

Equity is categorized in the statements of net assets as restricted and unrestricted. Restricted net assets are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the MTFC's policy to use restricted resources first for program loans to provide financing and other assistance to public and private entities for highway and transportation projects in the State of Missouri. Unrestricted resources are used for operating expenses as needed.

(F) Classification of Operating and Nonoperating Revenue

The MTFC has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, including interest income on program loans made to entities as provided by federal transportation laws and program fees.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, including federal, state and local grants and contracts. Interest earned is also classified as nonoperating revenue.

(G) Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

(H) Income Taxes

The MTFC submitted a request for ruling to the Internal Revenue Service. In response to that request, the IRS ruled the income of the MTFC is excludable from gross income for federal income tax purposes under Section 115 of the Code. The MTFC is required to file an annual income tax return on Form 1120.

Note 2: Cash and Investments**(A) Deposits**

The carrying amounts of deposits and bank balances of the MTFC at June 30, 2010 and 2009 were \$7,422,571 and \$15,360,709, respectively. The bank balances were covered by federal depository insurance and by collateral held by a third-party bank under a joint custody agreement.

(B) Investments

The MTFC's investment policy is approved by the Board. This policy supports the MTFC's conservative and prudent approach to investment management. The policy also addresses authorized financial dealers and institutions, internal controls, suitable and authorized investments, collateralization, diversification of the portfolio, maximum maturities, performance standards, and reporting requirements.

The policy allows funds to be invested in time deposits, linked deposits, certificates of deposit, commercial paper, bankers' acceptances, repurchase and reverse repurchase agreements and United States Treasury and federal agency securities. The MTFC's investments are reported at fair value. At June 30, 2010 and 2009, the MTFC had \$7,534,136 and \$44,297,790, respectively, of unregistered government sponsored securities for which a financial institution's trust department holds the securities in the MTFC's name.

Investment earnings consisted of the following for the years ended June 30:

	<u>2010</u>	<u>2009</u>
Interest income on deposits	\$ 23,314	\$ 48,437
Interest income on investments	\$1,094,196	\$2,157,568
Net appreciation (reduction) in fair value of investments	\$ (741,989)	\$ (239,719)
Total investment earnings	<u>\$ 375,521</u>	<u>\$1,966,286</u>

(C) Interest Rate Risk

Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. The MTFC policy states interest rate risk will be managed by the following objectives:

Safety: The investment portfolio is developed to avoid the need to sell securities on the open market prior to maturity, with securities scheduled to mature to meet cash requirements for ongoing operations.

Liquidity: The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that the securities mature concurrent with cash needs to meet anticipated demands (static liquidity).

Yield: The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs.

(D) Credit Risk

The MTFC minimizes credit risk by limiting investments to the safest types of securities as defined in Note 2 Cash and Investments, Section (B) Investments.

(E) Concentration of Credit Risk

The MTFC diversifies its investments to minimize the risk of loss resulting from over-concentration of assets in a specific maturity, issuer or class of securities. The asset allocation is periodically reviewed by management.

At June 30, 2010, the MTFC's investments had the following average maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>4-5 years</u>
Repurchase agreements	\$ 7,422,571	\$ 7,422,571	\$ ---	\$ ---
Government agency obligations	7,534,136	5,387,516	2,146,620	---

At June 30, 2009, the MTFC's investments had the following average maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>4-5 years</u>
Repurchase agreements	\$15,360,709	\$15,360,709	\$ ---	\$ ---
Government agency obligations	44,297,790	23,184,466	13,948,854	7,164,470

At June 30, 2010 and 2009, the MTFC's investments were rated as shown below. This disclosure does not include repurchase agreements.

<u>Investment Type</u>	<u>Moody's</u>	<u>Fair Value</u>	
		<u>2010</u>	<u>2009</u>
United States agency obligations	Aaa	\$ 7,534,136	\$44,297,790

(F) Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the MTFC will not be able to recover collateralized securities that are in the possession of an outside party. The MTFC's policy is to collateralize demand deposits and repurchase agreements with securities held by the financial institution's agent in the MTFC's name. The MTFC policy also states security transactions are settled "delivery versus payment." This means payment is made simultaneously with the receipt of the security. These securities are delivered to the MTFC's safekeeping bank.

Note 3: Loans Receivable

Loans are entered into to provide financing for highway and transportation projects. Future revenues secure city or county loans. Public entity loans are secured by irrevocable letters of credit or designated funds. The receivable balance as of June 30, 2010 and 2009 consists of the following:

(amounts in thousands)

<u>Customer and Project Description</u>	<u>Loan Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>2010</u>	<u>2009</u>
Principal and Interest Paid Monthly					
Bi-State Development Agency	07/07/00	07/31/10	5.490%	\$ ---	\$ 723
Provide the local share requirement for buses.	06/15/01	10/31/11	4.640	---	1,584
City of Lexington	11/23/05	11/30/12	3.760	38	52
Rehabilitate South 24 th Street between Highways 24 and 224 in the City of Lexington.					
City of Lexington	08/01/06	07/31/13	3.800	28	37
Rehabilitate South and Franklin Streets in the City of Lexington.					
Principal and Interest Paid Semi-annually					
City of Grandview	09/02/08	09/01/13	3.290%	\$ 278	\$ 351
Finance the City's portion of constructing an outer road bridge as part of a new single point urban interchange at Route 71 and Route 150.					
City of Pacific	03/23/09	09/30/15	4.180	1,150	1,200
Accelerate the relocation of the I-44 eastbound ramp.					

(amounts in thousands)

<u>Customer and Project Description</u>	<u>Loan Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>2010</u>	<u>2009</u>
Principal and Interest Paid Annually					
County of Madison Finance the County's portion of a cost share project to relocate Route 72 bypassing Fredericktown and Junction City and to refinance debt of related improvements.	09/28/07	03/01/19	4.200%	\$ 3,942	\$ 3,252
City of St. Louis Construct Gateway Transportation Center to consolidate urban buses, intercity buses, light rail passenger, commercial space and parking.	10/26/07	01/31/18	4.200	3,778	4,171
City of Kansas City Construct a single point urban interchange in conjunction with the kclCON project.	12/21/07	11/19/17	4.200	5,468	3,827
City of Warrenton Add left turn lane to southbound Highway 47 and install traffic signals at the intersection of Highway 47 and Warrior Avenue.	02/28/08	02/28/11	3.910	363	423
City of Belton Finance the City's portion of a cost share project to improve existing interchange at Route 71 and Route Y and relocate the east outer road in Cass County.	12/03/08	12/01/18	4.860	2,459	2,602
City of Poplar Bluff Construct Shelby Road intersection at Westwood Boulevard and Business Route 67.	03/02/09	03/01/21	4.860	4,650	1,250
County of St. Louis Rebuild interchange at I-270 and Dorsett Road.	03/02/09	03/01/13	3.530	2,916	5,100
Kansas City Power and Light Company Accelerate approach and replacement of Route 45 bridge over Burlington Northern Santa Fe Railway.	05/29/09	09/01/18	5.150	5,713	1,759
St. Francois County Special Road District #2 Replace the Commerce Street bridge.	06/12/09	03/01/17	4.030	324	367
City of Rogersville Improve traffic flow and access management at the intersection of Route 60 and Route VV/B.	7/31/09	08/01/19	4.470	726	---
U.S. Highway 36 – Interstate 72 Corridor – Transportation Development District Construct two additional lanes of approximately 52 miles on Route 36.	12/31/09	12/31/19	3.990	30,080	---

(amounts in thousands)

<u>Customer and Project Description</u>	<u>Loan Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>2010</u>	<u>2009</u>
Interest Only Paid Annually					
American Energy Producers, Inc. Finance the corporation's portion of a cost share project to construct right and left turn lanes on Highway 65.	07/31/08	08/02/10	4.200%	\$ 184	\$ 184
County of St. Louis Accelerate east access to and from I-64 at Spirit of St. Louis Boulevard.	03/24/09	08/02/10	3.910	1,393	1,393
City of Waynesville Finance the corporation's portion of a cost share project to relocate the GW Lane Outer Road that runs parallel to I-44.	9/11/09	08/01/11	1.020	1,017	---
City of Trenton Finance the city's portion of a cost share project to construct turn lanes and upgrade Route 65.	10/30/09	08/01/12	1.180	382	---
County of St. Charles Accelerate Phase II of construction of Route 364 (Page Avenue) from Central School Road to Mid Rivers Drive.	06/01/10	08/01/13	1.330	<u>10,000</u>	---
Total				<u>\$74,889</u>	<u>\$28,275</u>

Annual loans receivable to maturity are indicated in the following schedule.

(amounts in thousands)

<u>Year</u>	<u>Principal</u>
2011	\$ 10,636
2012	8,481
2013	11,972
2014	11,564
2015	6,716
2016-2020	25,318
2021-2025	<u>202</u>
Total principal	<u>\$ 74,889</u>

Loans receivable are included in the accompanying statements of net assets, as follows:

	<u>2010</u>	<u>2009</u>
Current loans receivable	\$ 10,635,592	\$ 4,597,465
Noncurrent loans receivable	<u>64,252,995</u>	<u>23,678,031</u>
Total loans receivable	<u>\$ 74,888,587</u>	<u>\$ 28,275,496</u>

Note 4: Accounts Payable

Accounts payable represent reimbursements payable for personnel and administrative expenses to the Missouri Department of Transportation (MoDOT).

Note 5: Restricted Net Assets

The MTFC received money from federal grants, which is restricted for lending purposes only. The grants required a state transportation funding match, which, with interest earned on investments, is also restricted.

	<u>2010</u>	<u>2009</u>
Current restricted assets	\$ 12,597,925	\$ 33,486,387
Noncurrent restricted assets	<u>66,399,615</u>	<u>44,791,355</u>
Total restricted assets available for lending purposes	<u>\$ 78,997,540</u>	<u>\$ 78,277,742</u>
Restricted assets committed for executed loans	\$ 15,297,026	\$ 53,525,151
Restricted assets uncommitted	<u>63,700,514</u>	<u>24,752,591</u>
Total net assets restricted for lending purposes	<u>\$ 78,997,540</u>	<u>\$ 78,277,742</u>

Note 6: Risk Management

The MTFC is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; and errors and omissions for which the MTFC carries commercial insurance. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. No liabilities were reported at June 30, 2010 or 2009. The MTFC has had no settlements in the last three years.

Note 7: Loan Commitments and Loans Approved

At June 30, 2010 the MTFC had loan commitments totaling \$15.3 million that were approved and executed but not disbursed. Three of the loan commitments have had partial disbursements with the following remaining payouts:

(amounts in thousands)

<u>Customer and Project Description</u>	<u>Approved Date</u>	<u>Executed Date</u>	<u>Projected Disbursement Date</u>	<u>Interest Rate</u>	<u>Amount</u>
Principal and Interest Paid Annually					
U.S. Highway 36 – Interstate 72 Corridor – Transportation Development District* Construct two additional lanes of approximately 52 miles on Route 36.	09/28/06	04/04/08	10/01/10	3.990%	\$ 1,683
City of Kansas City* Construct a single point urban interchange in conjunction with the kclCON project.	06/21/07	12/19/07	11/19/10 11/19/11	4.200	2,000 <u>2,000</u> 4,000
City of Poplar Bluff* Construct Shelby Road intersection at Westwood Boulevard and Business Route 67.	11/06/08	02/25/09	09/01/10	4.860	562
City of St. Clair Relocate the I-44 North Outer Road at Route 47.	10/06/09	11/24/09	10/01/11	2.930	852
City of Columbia Finance the local portion of a cost-share project to construct improvements on Route 740, also known as Stadium Boulevard.	02/06/07	10/14/09	06/01/12 06/01/13	3.920	6,300 <u>1,900</u> 8,200
Total loan commitments					<u>\$ 15,297</u>

*These loans had partial disbursements with the remaining payouts listed.

On December 15, 2003, the MTFC approved a line-of-credit for the Missouri Highways and Transportation Commission. The maximum amount available on the line-of-credit is the total uncommitted balance of the MTFC accounts. The primary purpose of the line-of-credit is to finance projects eligible in conformity with Federal transportation laws in the event of federal reimbursement delays for State Road Fund Projects. The Commission will make a lump-sum repayment of principal and interest three months after the loan is advanced. At June 30, 2010 and 2009 no advances had been made to the Missouri Highways and Transportation Commission on the line-of-credit.

At June 30, 2010 a loan agreement of approximately \$1.9 million has been approved but has not been executed; therefore, the funds have not been disbursed. The details of this loan agreement, including timing of disbursement, have not been finalized with the loan recipient. This consists of the following:

(amounts in thousands)

<u>Customer and Project Description</u>	<u>Approved Date</u>	<u>Projected Disbursement Date</u>	<u>Interest Rate</u>	<u>Loan Length</u>	<u>Amount</u>
Highway 179 Transportation Corporation Construct a new interchange on Route 179 between Edgewood and Route C.	11/06/08	03/01/11	3.390%	3 years	\$ <u>1,900</u>
Total loans approved					\$ <u>1,900</u>

Statistical Section

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Statistical Section

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Note:

The objective of this statistical section is to provide users with a historical perspective by presenting information for multiple years. Over time, data for the most recent ten years will be presented. However, in some cases schedules originate with the year the MTFC began tracking the information or it became administratively feasible to report retroactively.

Financial Trends

Changes in Net Assets

Years Ended June 30
(amounts in thousands)

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating Revenues				
Interest income on loans	\$2,056	\$ 844	\$1,064	\$ 913
Program fees	<u>29</u>	<u>43</u>	<u>6</u>	<u>5</u>
Total Operating Revenues	2,085	887	1,070	918
Operating Expenses				
Administrative fees	49	48	33	45
Professional fees	11	10	9	8
Travel and training	---	---	1	4
Other	<u>2</u>	<u>3</u>	<u>5</u>	<u>4</u>
Total Operating Expenses	62	61	48	61
Operating Income	2,023	826	1,022	857
Nonoperating Revenues (Expenses)				
Investment earnings	375	1,967	2,459	2,996
Investment fees	<u>(35)</u>	<u>(64)</u>	<u>(57)</u>	<u>(55)</u>
Net Nonoperating Revenues	340	1,903	2,402	2,941
Change in Net Assets	<u>\$2,363</u>	<u>\$2,729</u>	<u>\$3,424</u>	<u>\$3,798</u>

<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
\$1,154	\$1,262	\$1,019	\$ 967	\$1,231
<u>3</u>	<u>3</u>	<u>1</u>	<u>---</u>	<u>2</u>
1,157	1,265	1,020	967	1,233
36	50	59	33	31
8	8	10	10	15
2	---	---	---	---
<u>1</u>	<u>9</u>	<u>1</u>	<u>1</u>	<u>1</u>
47	67	70	44	47
1,110	1,198	950	923	1,186
1,692	733	545	672	981
<u>(28)</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>
1,664	733	545	672	981
<u>\$2,774</u>	<u>\$1,931</u>	<u>\$1,495</u>	<u>\$1,595</u>	<u>\$2,167</u>

Financial Trends

Net Assets

Years Ended June 30
(amounts in thousands)

<u>Fiscal Year</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
2010	\$78,998	\$12,299	\$91,297
2009	78,278	10,656	88,934
2008	76,311	9,894	86,205
2007	73,852	8,929	82,781
2006	70,856	8,127	78,983
2005	69,164	7,045	76,209
2004	68,425	5,853	74,278
2003	67,883	4,900	72,783
2002	67,184	4,004	71,188

Revenue Capacity Average Fair Value of Investments and Average Yields on Investments Held on Behalf of the MTFC

Years Ended June 30
(amounts in thousands)

<u>Fiscal Year</u>	<u>Average Monthly Fair Value of Investments</u>	<u>Monthly Weighted Average Yield on Investments</u>
2010	\$ 28,196	2.86%
2009	56,901	3.35
2008	52,144	4.54
2007	51,010	5.17
2006*	38,942	4.08

* Only includes October through June

Source: Financial Institution

Revenue Capacity

Net Loans Receivable by Fiscal Year

Years Ended June 30
(amounts in thousands)

<u>Fiscal Year</u>	<u>Net Loans Receivable</u>	<u>Weighted Average Interest Rate</u>
2010	\$ 74,889	3.77%
2009	28,275	4.25
2008	17,835	2.88
2007	24,513	3.76
2006	29,785	3.60
2005	34,958	3.52
2004	33,654	3.61
2003	32,616	3.51
2002	30,281	3.30

Source: Weighted average interest rate calculated by Missouri Department of Transportation, Resource Management staff

Demographic and Economic Information

Population, Personal Income and

Unemployment Rate – State of Missouri

Years Ended December 31
(amounts in thousands)

<u>Year</u>	<u>Population</u>	<u>Personal Income</u>	<u>Per Capita Personal Income</u>	<u>Unemployment Rate</u>
2009	5,988	\$213,238,000	\$36	9.2%
2008	5,912	205,288,000	35	6.0
2007	5,878	198,757,000	34	5.1
2006	5,838	188,399,000	32	5.2
2005	5,788	178,036,000	31	6.3
2004	5,745	170,392,000	30	5.9
2003	5,706	164,163,000	29	5.9
2002	5,676	160,014,000	28	5.7
2001	5,642	155,843,000	28	4.8
2000	5,606	149,979,000	27	3.2

Sources:

Population: United States Department of Commerce, Census Bureau

Personal Income, Per Capita Personal Income and Unemployment Rate: United States Department of Commerce, Bureau of Economic Analysis

Demographic and Economic Information

Employment Sectors – State of Missouri

Years Ended December 31

(amounts in thousands)

	2009			2000		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage</u>
Trade, transportation and utilities	535	1	20%	556	1	20%
Government	462	2	17	431	2	15
Education and health services	410	3	15	333	4	12
Professional and business services	331	4	12	324	5	12
Leisure and hospitality	263	5	10	270	6	10
Manufacturing	261	6	9	370	3	13
Financial activities	163	7	6	160	7	6
Construction, natural resources and mining	137	8	5	150	8	5
Other services	115	9	4	116	9	4
Information	<u>62</u>	10	<u>2</u>	<u>77</u>	10	<u>3</u>
Total	<u>2,739</u>		<u>100%</u>	<u>2,787</u>		<u>100%</u>

Source: United States Department of Labor, Bureau of Labor Statistics

Operating Information

Approved Loans by Fiscal Year

Years Ended June 30

(dollar amounts in thousands)

<u>Fiscal Year</u>	<u>Number of Loans Approved</u>	<u>Total Approved Loan Amount</u>
2010	6	\$15,658
2009	11	23,724
2008	3	10,284
2007	14	95,781
2006	2	8,060
2005	2	897
2004	1	500
2003	2	25,673
2002	1	4,000
2001	0	---

Source: Missouri Department of Transportation, Resource Management database

Not all loans approved by the MTFC board are executed or disbursed.

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Other Information

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CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

2005 West Broadway, Suite 100, Columbia, MO 65203
OFFICE (573) 442-6171 FAX (573) 777-7800

3220 West Edgewood, Suite E, Jefferson City, MO 65109
OFFICE (573) 635-6196 FAX (573) 644-7240

www.williamskeepers.com

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Missouri Transportation Finance Corporation
Jefferson City, Missouri

We have audited the financial statements of the business-type activities of the Missouri Transportation Finance Corporation (the Corporation), a component unit of the State of Missouri, as of and for the year ended June 30, 2010, and have issued our report thereon dated August 17, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Corporation's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an

objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

Williams - Keepers LLC

August 17, 2010

